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NOTICE: WORKING-PAPER

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Included in this issue are instances of

Economic Situations Detrimental to US Objectives in Europe:

25X6A

- III. Rehabilitation and Security Are At Odds in Austria.
- IV. Swiss Control of Transit Trade is Ineffective

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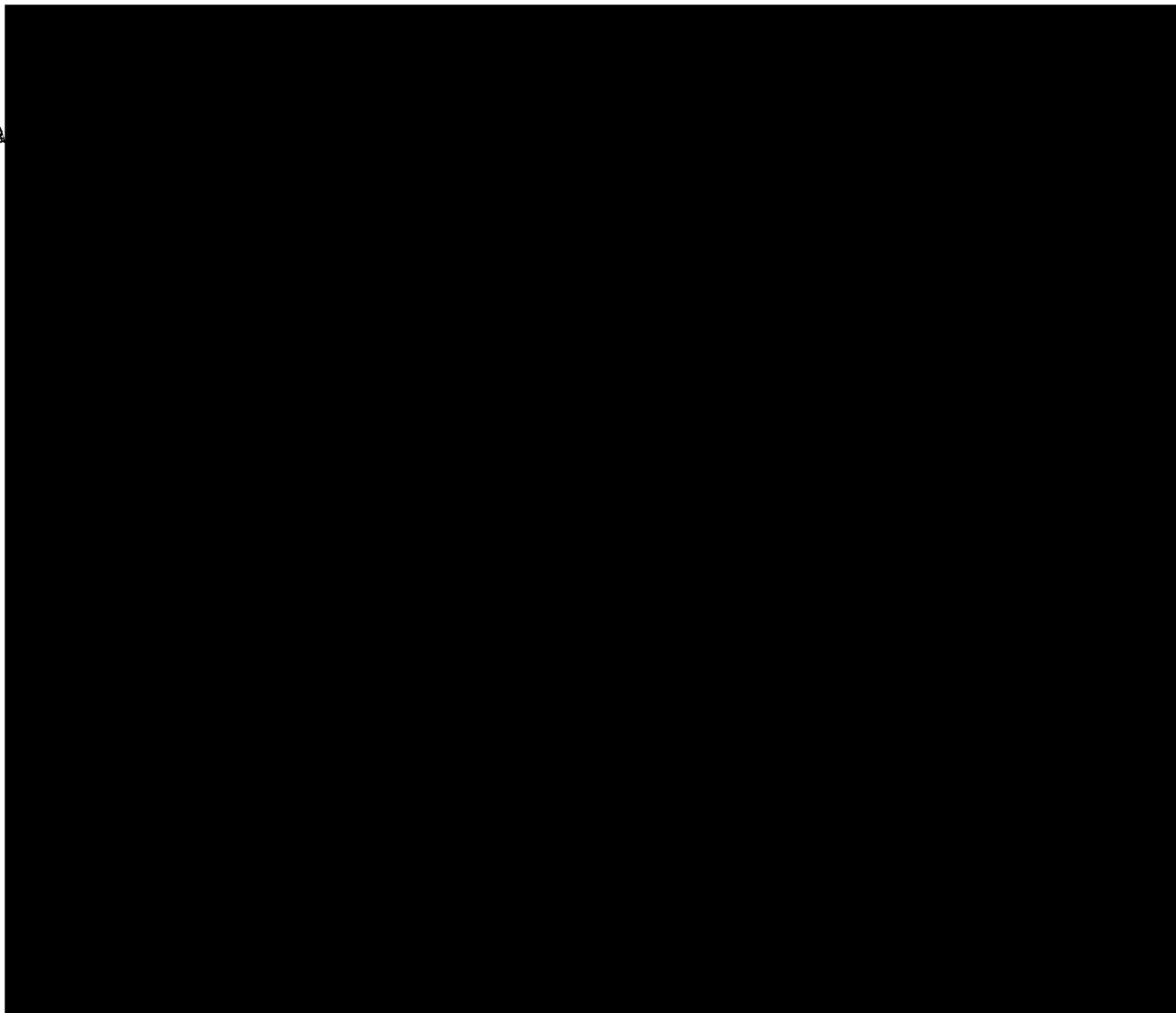
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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

Vol. VI - No. 22  
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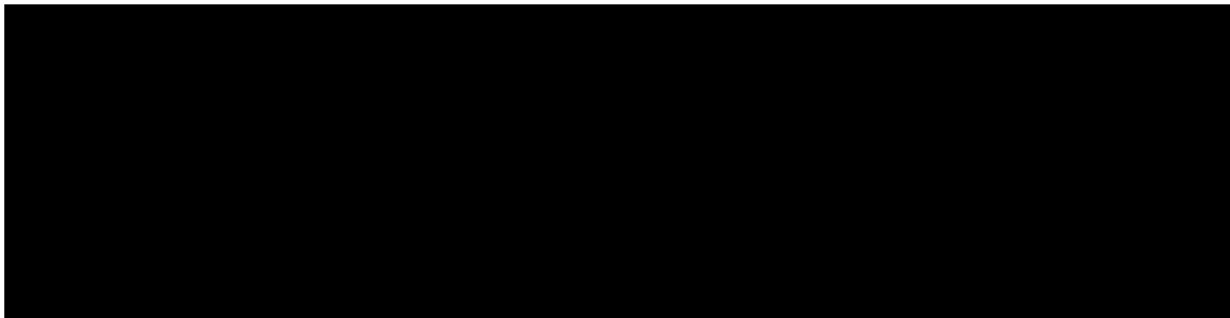
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### FRANCE

A                    Sufficient French support for the Schuman pooling plan  
to assure its eventual ratification in some form by the Assembly is  
indicated by the reactions so far of various major groups. Not all of  
these reactions reflect wholehearted support, but the heavy balance  
is in favor of the plan.

Schuman's own Popular Republican Party (MRP) and  
the Socialists will have their main doubts removed by the accession of  
six nations to the pooling agreement; thus France will not be left  
alone with Germany. The Socialists, however, will still be somewhat  
apprehensive of undue advantages for German industrialists, suspecting  
that Adenauer was a party to the original planning, and the Socialist  
Secretary General is especially fearful that papal diplomacy influenced  
France's decision.

In general, public opinion favors the plan, the principal  
reservations coming from the trade unions, which foresee a rapid growth  
of unemployment among the miners and a possible drop in the standard of  
living of French workers to the German level.

Gaullists, following the lead of the General, are likely  
to oppose the pooling on the grounds that it does not go far enough toward  
a Franco-German rapprochement, and that it cannot, even in its limited  
form, be carried through successfully by the Bidault Government. The  
rest of the Right is split on the question, with unexpected, though reserved,  
support coming from some extremists. The Communist Party will  
continue to oppose the move vehemently as being dictated by US  
"imperialism", and to convince the workers, will point to economic dangers.  
The steel industry feels it has a just grievance against the plan, because it  
was not consulted in advance, and may suffer losses during the transitional  
period, but its main opposition may be weakened at a later stage.

Much helpful support for the plan will come from those  
influential individuals in France who favor a federated Europe, and see the  
Schuman Plan as a major step in that direction.

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B

Although several controversial political issues may cause serious strain to the Bidault Government, it appears likely that the present coalition will be able to remain in power at least during the next two months. At its recent National Congress the Socialist Party, which is outside the Cabinet, could have taken decisions which might have caused the Government serious difficulties, but there are now indications that the Party will continue to support the Bidault coalition.

Any one of the acute political issues, however, especially the proposals for amnesty to some collaborators, electoral reform, and the church-school issue, all of which must eventually be discussed in the National Assembly, are touchy problems and could unexpectedly cause the downfall of the Bidault Government. At the present time the Assembly is discussing the detailed budget bill and is not expected to complete its passage until July. Debate on other issues may, therefore, be postponed until that time, despite strong pressure from the Radical Socialists for early discussion of electoral reform. Although the Radicals, who are in the coalition, may take a firm stand at their 7 June Party Congress on the scheduling of the electoral reform debate, their disinclination, and that of other political parties, to take over the leadership of the nation at a time when unpopular, additional revenues may be required, are factors tending to preserve the Government's stability for the next two months.

#### FRENCH AND SPANISH NORTH AND WEST AFRICA

B

The French Residency General in Morocco has recently given evidence of a determination to take more drastic measures in its effort to weed out active Communist leaders. The stiffening attitude is apparently a reaction to increasingly brazen Communist activities, in accordance with the present militancy of the Cominform line, plus a feeling of stronger support from the Paris Government for vigorous anti-Communist action.

The unofficial Soviet representative in Casablanca for the past several years, Moses Daljansky, has been arrested by French counterespionage police and has been secretly removed to Paris, leaving behind his French wife and children. Daljansky, a Soviet citizen, lived in Casablanca since 1940, and in 1947 received a Soviet passport at his own request from the Soviet Consulate General in Algiers. Since the

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beginning of 1950, he has had no visible means of support, and has been in constant contact with the Soviet Consulate in Algiers and with local Communists. A few days before his arrest he is known to have gone aboard the Soviet steamer *Murmansk* in port in Casablanca. General Juin, French Resident General in Morocco, has requested his deportation to the USSR.

Commenting on the measures being taken by the  
25X1X600 ~~Proteccorate Administration~~ to rid the territory of militant Communists, [redacted] told a US

consular official: 'It is war against the Communists; we are deporting those people, and we will continue to do so.' He added that alien Communists would be liquidated without pity and that Moroccan Communists would be apprehended and punished severely for any and all activities detrimental to peace and good order in French Morocco.

#### BELGIUM

B The Belgian Government's vacillation in the matter of an unloading port for MDAP equipment may contribute to the doubts of those Belgians unenthusiastic about the MDAP. The Government originally planned to use Antwerp, but has since designated the small port of Zeebrugge. The reason for the change may lie in the recent wild-cat strike of Antwerp dockworkers, whose economic grievances the Communists were quick to exploit, and in the current election campaign jitters, arising from controversy over the royal question. However, the Government's weakness in facing the problems of unloading at Antwerp, despite assurances that Communist strength in Antwerp could be controlled, may improve chances for an increase in the current negligible neutrality sentiment. Communist propaganda, of course, will link its anti-MDAP campaign with the Government's attempts to avert labor disturbances because of the anti-Leopold campaign and embellish it.

#### ITALY

B Increasing disregard of the interests and policies of the minor Italian coalition parties by Premier De Gasperi's majority Christian

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Democrats may cause the withdrawal of the moderate Socialists (PSLI) and Republicans from the Government, thereby accelerating the trend toward a single-party administration. The Christian Democratic attitude will also tend to support the Communist allegation that De Gasperi heads an "authoritarian regime".

Among the restrictive legislative measures sponsored by the Christian Democrats but opposed by the minor parties, the following are outstanding: (1) a school reform bill increasing Church influence in education; (2) a bill limiting divorce; (3) a labor bill restricting the right to strike; and (4) legislation governing local and regional elections.

Of these measures, that dealing with the elections has particularly antagonized the PSLI and Republicans. Recently, the Christian Democratic majority on the Chamber of Deputies Committee discussing the regional elections bill forced through an amendment providing for the election of the regional councils by the provincial assemblies. (A province is a subdivision of a region.) The minor parties have denounced this act as a flagrant violation of the Christian Democrats' previous pledge that the regional councils would be elected by popular vote, a principle subsequently incorporated in the draft law.

With regard to the local elections, the PSLI and Republicans are opposed to the majority system advocated by the Christian Democrats in communes between 10,000 and 100,000 population, whereby 80 percent of the council seats are awarded to the victorious party and the remaining 20 percent to the runner-up. The minor parties fear that unless a third of the seats in this class of communes are distributed proportionally, the minor parties will completely disappear, except in communes over 100,000 where the proportional system obtains.

The increasing tendency of the Christian Democrats to assume the prerogatives of a one-party Government and to accentuate restrictive legislation rather than constructive measures in the field of agrarian and fiscal reform and investment will further weaken the Government's prestige among large segments of the population. It will also facilitate the Communist strategy of isolating the Government and portraying it as an authoritarian regime.

#### SPAIN

B

Spanish Chief of State Franco is considering a Cabinet reorganization which, because of increasing domestic criticism of the regime's economic policies and the failure of the regime to obtain a large,

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political loan from the US, centers on the possible removal of Juan Antonio Suances as the Minister of Industry and Commerce. A consequent shift of emphasis in economic policy would probably provide for some liberalization of the present restrictions against foreign enterprise in order to attract outside economic support. No far-reaching or drastic modification of economic controls, however, is likely at present, because of the political hazards involved, although Franco may take the risk of displacing Suances in an effort to stave off the growing domestic complaints and the danger of national bankruptcy. Though not imminent, bankruptcy cannot be denied as probable within a few years unless present trends are checked.

Suances has become the principal target of criticism, both foreign and domestic, as the author of the Government's policies of economic regimentation. He cannot be removed summarily, however, because of his power as President of the Institute of National Industry (INI), the instrument of Government expansion into industrial and financial enterprise, and as head of the Foreign Exchange Institute. He occupies a position in Spain similar to that formerly held by Miranda of Argentina as the "economic czar" of the Peron Government. INI is much more than a Government trading agency and has taken the Spanish Government into the field of production on a pattern inspired by the Herman Goeringwerke of Nazi Germany. Suances' determination to develop through INI a Government-controlled industrial empire at any sacrifice has proved disastrous to domestic food production and generally inimical to private enterprise. Moreover, the regime is now confronted by the awareness in business and financial circles that these policies have proved a major deterrent to private foreign investment and even to minor US aid in the form of Export-Import Bank loans. Suances, for example, is known to have blocked the efforts of private mining interests to apply for Export-Import Bank aid because he wished such assistance to be handled only through entities under his control.

At the same time, the regime is criticized by all observers for the corruption and graft in the bureaucracy, which, traditionally large and inefficient under previous Spanish regimes, has been greatly expanded by the Franco Government. Little can be done in present circumstances to overcome this liability. The machine which Suances has built up to administer controls, especially over foreign exchange and raw materials allocation, would undoubtedly hamper efforts to establish a more liberal

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economic system. The Government is better able politically to respond to the demands being voiced for elimination of the black market, which the Falange and the Army control. The gradual derationing of food and supplies has already begun at a cautious rate.

### PORTUGAL

B            The recent progress of the ECA program in Portugal is threatened by the dampened enthusiasm of the Portuguese Government arising out of difficulties in arranging ECA assistance for Portugal's colonies. The Portuguese Government has expressed disappointment because the ECA mission recommended that, to promote colonial development, Portugal purchase heavy equipment in Europe out of its counterpart funds. The Portuguese reaction arises partly from over-optimism regarding the liberality with which ECA is authorized to act, and partly from Portugal's limited counterpart fund and shortage of investment capital. Some Portuguese officials tend to think that the difficulties encountered in getting ECA aid for the colonies are created deliberately to make US private capital the only source of funds. ECA mission in Lisbon believes that ECA must find some method of financing the requisite purchases for the Portuguese on a long-term basis.

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SPECIAL ARTICLE

**ECONOMIC SITUATIONS DETRIMENTAL TO US OBJECTIVES IN  
EUROPE**

A Trade practices inimical to US interests and objectives  
spring up easily in western Europe, as a result of short sightedness,  
fear of competition, lax government controls, the desire for profit, and  
the demands of the international political situation. Three cases are  
examined here.

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### III. Rehabilitation and Security at Odds in Austria

The position of Austria as a full participant in the ERP, and its treatment as an economic unit, are frequently at variance with the US export control objective of denying strategic goods to eastern Europe. The USSR is able to purchase in and via Austria goods it could not otherwise obtain, because of its position as an occupying power, and because of Western policy, which has been directed toward building up the Austrian economy while maintaining the political status quo and making progress toward a treaty. The West has, therefore, made Austria a full participant in the ERP, and has treated the country, including the Soviet Zone, as an economic unit. This policy has preserved Austria's unity, brought the country a measure of economic prosperity, contributed to Austria's pro-Western orientation, and reinforced Austria's resistance to Soviet Communist pressure. It has also permitted Western influence in an area bordering on the Soviet Satellite states.

Any change in the policy would involve the risk of the economic partition of Austria, and would incur the opposition of the Austrians themselves. Nevertheless, Austria's participation in the ERP and its treatment as an economic unit pose problems for Western security in three connections: (1) part of the output of the strategic industries being built in Austria--even in the western zones--is shipped to the East; (2) some ECA goods received in Austria find their way into Soviet hands, either as raw materials or as finished products, despite end-use checks by the Vienna screening committee; and (3) Austria is a transit area for goods from various western sources to the East.

By virtue of its special position in Austria, the USSR, either directly or through numerous profiteering middlemen, can and does purchase on the Austrian market, places orders in Western countries for goods via these Austrian middlemen, and ships these goods eastward from Austria without being subject to Austrian export regulations. The Western occupation forces have no authority to stop goods moving from western

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Austrian firms or through western Austria into the Soviet zone; the Austrians themselves cannot cut off shipments without inviting Soviet retaliation on interzonal goods movements. For either the Western Powers or the Austrian Government to undertake such a policy would risk economic partition of the country. Although the Austrian Government secretly cooperates with US officials in screening ECA imports to firms in the eastern zone, even this participation would probably be risky for the Government if it became known to the USSR.

The Soviet position in Austria thus constitutes a steady drain on Austrian production and recovery and enables the USSR to profit by Austria's position as a recipient of ECA aid. But the USSR and its Satellites apparently profit to a much greater extent through the use of Austria as a buyer of Western goods. Western European countries have embargoed the shipment of some strategic items to the Soviet bloc, but the shipment of strategic goods from western Europe countries to Austria is virtually unrestricted. Once in Austria, the control of these shipments is effectively nullified because the Western Occupation Powers do not have the authority to stop shipments, and the Austrians will not stop them and contribute to the partition of their country.

Austria's occupied status, its geographic location, and its trade position in relation to eastern Europe underlies the conflict between Austria's recovery and US export controls. US controls on direct shipments to Austria, implemented by the end-use checks of the special Vienna screening committee, have had some restrictive effect on the direct flow of US strategic exports to Austria. There are no effective controls, however, on US goods to Austria transshipped through western European countries, which regard the US technique of end-use checks in Austria as unduly cumbersome, and exercise no controls of any consequence on their own exports to Austria.

End-use checks alone on all imports by Austria would probably fail to prevent a flow of goods to the East; they would further more probably prove to be politically unwise in Austria, where the people would not only resent the discrimination, but would also fear the ultimate Soviet pressure such checks would invite. On the other hand, if western European countries cooperated in exporting to Austria only those goods needed by the Austrian economy, a more effective deterrent to the eastward flow of goods might result.

The flow of Austrian goods to the East will not stop, however, simply as a result of regulating the imports into Austria. Account must also be taken of Austria's need to export, and the problem is to direct the country's shipments to the West. At present, the ease with

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which Austria can dispose of its industrial products to the East, and the growing size of this trade, legal and illegal, while trade with the West is more difficult, demonstrate that Austria's economy must be made more complementary to that of the Western nations. Until this is done, Austria's recovery under ECA will serve to increase the industrial capacity available to the USSR and its Satellites. This is a problem presented by the ECA investment program in Austria, where plants are being rehabilitated and industrial capacity is being increased, frequently at the expense of US security interests.

#### IV. Swiss Control of Transit Trade is Ineffective

The recent flow of strategic items through Switzerland again highlights the important way in which Switzerland contributes to the evasion of US and western European export controls to the Soviet Orbit. Switzerland is normally an important transit point for shipments eastward, and is becoming increasingly important as a break-through point for Western strategic commodities. Swiss restriction for security reasons of either its own exports or of transit shipments is likely to be mild, even though the Swiss continue to assert that they will cooperate in general with the US export control program. Actually the Swiss have been in possession of 1-A and 1-B lists and the AEC A and B lists for some time, but they have taken no steps to stop the shipment to the East of strategic items, apart from war materiel (such as aircraft parts). Furthermore, it appears that only the US and Canada (and to a lesser extent, western Germany) are making end-use checks in Switzerland. Lastly, Switzerland, as a primary center of international finance, furnishes unexcelled facilities for the expedition of this traffic.

The Swiss, in reality, are probably unwilling to institute controls to an extent satisfactory to the West. This reluctance stems from a fear of jeopardizing the very delicate position they hold between the West and the East, and from an aversion to inviting retaliation by the Soviet bloc. The solution to the problem of transit trade through Switzerland will require strong, coordinated effort on the part of all the Western nations.

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